FY 2003-04 CONSENSUS REVENUES

FY 2003-04 **CONSENSUS REVENUES Executive Recommendation**

This section explains January 2003 consensus revenue estimates for GF/GP and School Aid Fund revenue by major revenue sources. Several important assumptions behind the revenue estimates are discussed in the following text. Executive Recommendation revenue changes are not included in this section.

General Fund/General Purpose Revenue by Source

Personal Income Tax

Wage and salary employment is expected to decline 0.3% in 2003, then grow 1.7% in 2004. Michigan's unemployment rate is expected to reach 6.2% in 2003, then decline to 5.7% in 2004. As a result, Michigan personal income tax revenue is forecast to post only a slight gain of 0.4% in FY 2002-03. Baseline GF/GP income tax revenue declined 8.3% in FY 2001-02, to \$4,234.1 million. Income tax revenue is expected to decrease 0.6% to \$4,208.1 million in FY 2002-03 and increase 5.0% to \$4.416.7 million in FY 2003-04.

Sales and Use Taxes

Sustained growth in wage and salary income will increase baseline sales and use tax revenue from \$954.5 million in FY 2001-02 to \$983.8 million in FY 2002-03, and 6.7% to \$1,049.4 million in FY 2003-04.

Single Business and Insurance Taxes

Single Business Tax (SBT) revenues accrue to the GF/GP. Net baseline business taxes (SBT plus insurance taxes) were \$2,175,2 million in FY 2001-02 and will increase 5.5% to \$2,295.0 million in FY 2002-03 and 5.1% to \$2,412.0 million in FY 2003-04. Baseline Single Business Tax revenue alone was \$1,948.1 million in FY 2001-02; it is expected to increase 5.2% to \$2,050.0 million in FY 2002-03 and 5.1% to \$2,155.0 million in FY 2003-04.

GF/GP Baseline Tax Revenue

In FY 2001-02, GF/GP baseline tax revenue declined 4.7% to \$7,948.9 million. General Fund/General Purpose baseline tax revenue is expected to increase 1.6% in FY 2002-03 and 4.9% in FY 2003-04, to \$8,079.6 million and \$8,477.3 million, respectively.

Total GF/GP Baseline Revenues

Total baseline GF/GP revenues include baseline tax revenues and non-tax revenues. Non-tax revenue includes revenue from the liquor purchase revolving fund, federal aid, licenses and permits, and investment income and borrowing costs. Total GF/GP baseline revenues declined 4.2% to \$8,278.4 million in FY 2001-02. General Fund/General Purpose baseline revenues are expected to increase 0.2% to \$8,298.6 million in FY 2002-03 and 4.3% to \$8,653.3 million in FY 2003-04.

Actual GF/GP Revenue

Actual GF/GP revenue represents revenue available for expenditure each year. Total GF/GP actual revenue was \$8,425.1 million in FY 2001-02. Actual GF/GP revenue is expected to decline 4.1% to \$8,083.8 million in FY 2002-03. Actual GF/GP revenue is expected to increase 1.3% to \$8,191.5 million in FY 2003-04.

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GF/GP REVENUE ESTIMATES (Millions of Dollars and Fiscal Years)

	<u>2001-02</u>	2002-03	2003-04	2003-04 ov %Change	rer 2002-03 \$Change
Personal Income Taxes	\$4,234.1	\$4,208.1	\$4,416.7	5.0%	\$208.6
Sales and Use Taxes	954.5	983.8	1,049.4	6.7%	65.6
SBT and Insurance Taxes	2,175.2	2,295.0	2,412.0	5.1%	117.0
Other Taxes	<u>585.1</u>	<u>592.7</u>	<u>599.2</u>	1.1%	<u>6.5</u>
GF/GP Baseline Tax Revenue	\$7,948.9	\$8,079.6	\$8,477.3	4.9%	\$397.7
Non-Tax Revenue	329.5	219.0	176.0	-19.6%	(43.0)
Total GF/GP Baseline Revenue	\$8,278.4	\$8,298.6	\$8,653.3	4.3%	\$354.7
Adjustments to Baseline	<u>146.8</u>	(214.8)	<u>(461.7)</u>		<u>(\$246.9)</u>
Actual GF/GP Revenue	\$8,425.1	\$8,083.8	\$8,191.5	1.3%	\$107.7

School Aid Fund Revenue by Source

Sales and Use Taxes

Combined sales and use tax revenue dedicated to the SAF equaled \$5,130.0 million in FY 2001-02 and is estimated to increase 2.5% to \$5,255.8 million in FY 2002-03 and 5.3% to \$5,533.5 million in FY 2003-04. Baseline sales tax revenue is estimated to increase 2.5% in FY 2002-03 and 5.3% FY 2003-04; baseline use tax revenue earmarked to the SAF is estimated to increase 2.0% in FY 2002-03 and 5.0% in FY 2003-04.

Income Tax

Approximately 23% of gross income tax collections are dedicated to the SAF. Baseline dedicated income tax revenue is estimated to decrease 0.2% to \$1,857.4 million in FY 2002-03 and increase 4.4% to \$1,939.8 million in FY 2003-04.

Lottery/Casinos

Lottery revenue contributed \$613.5 million to the SAF in FY 2001-02. Baseline lottery revenue to the SAF is projected to decrease 4.7% to \$585.0 million in FY 2002-03, and decline 0.9% to \$580.0 million in FY 2003-04. Casino revenue contributed \$91.9 million to the SAF in FY 2001-02, and is estimated to be \$96.0 million in FY 2002-03 and \$99.0 million in FY 2003-04.

Tobacco Taxes

Approximately 64.0% of baseline gross tobacco tax revenue is dedicated to the School Aid Fund, which received \$379.9 million from tobacco taxes in FY 2001-02. The demand for tobacco products is expected to decline slowly over the duration of the forecast. Total SAF tobacco tax revenue is expected to decrease to \$371.0 million in FY 2002-03, and to \$363.4 million in FY 2003-04.

State Education Tax/Real Estate Transfer Tax

All of the 6-mill state education tax (SET) and the real estate transfer tax (RET) is dedicated to the SAF. Revenue from the SET was \$1,583.8 million in FY 2001-02; SET revenue is expected to increase 5.1% to \$1,665.0 million in FY 2002-03, and 4.5% to \$1,740.0 million in FY 2003-04. The real estate transfer tax contributed \$253.1 million to the SAF in FY 2001-02, and is estimated to contribute \$253.0 million to the SAF in FY 2002-03 and \$258.0 million in FY 2003-04.

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Total SAF Baseline Revenue

Total SAF baseline revenue increased 1.3% to \$10,105.4 million in FY 2001-02. Baseline revenue is expected to increase \$174.5 million or 1.7% to \$10,279.9 million in FY 2002-03, and \$434.5 million or 4.2% to \$10,714.4 million in FY 2003-04.

Actual SAF Revenue

Actual SAF revenue represents revenue available for expenditure each year. Actual SAF revenue includes tax changes not included in the baseline figures, beginning balances, federal funds, local revenue, and BSF transfers to the SAF, but does not include any GF/GP transfers to SAF. Actual SAF revenue was \$11,416.1 million in FY 2001-02 and is expected to increase 8.2% to \$12,347.1 million in FY 2002-03, then decrease 2.2% to \$12,074.5 million in FY 2003-04.

SCHOOL AID FUND REVENUE ESTIMATES (Millions of Dollars and Fiscal Years)

Revenue	<u>2001-02</u>	2002-03	2003-04	2003-04 ov % Change	ver 2002-03 \$Change
Sales and Use Tax	\$5,130.0	\$5,255.8	\$5,533.5	5.3%	277.7
Income Tax Earmark	1,860.4	1,857.4	1,939.8	4.4%	82.4
Lottery and Casinos	705.4	681.0	679.0	-0.3%	(2.0)
Tobacco Taxes	379.9	371.0	363.4	-2.0%	(7.6)
State Education Tax	1,583.8	1,665.0	1,740.0	4.5%	75.0
Real Estate Transfer Tax	253.1	253.0	258.0	2.0%	5.0
Liquor Excise and Specific Taxes	<u>192.8</u>	<u>196.7</u>	200.7	2.0%	<u>4.0</u>
Baseline SAF Revenue	\$10,105.4	\$10,279.9	\$10,714.4	4.2%	\$434.5
Adjustments to Baseline	<u>1,310.7</u>	2,067.2	<u>1,360.1</u>		<u>(\$707.1)</u>
Actual SAF Revenue (less GF/GP Transfer)	\$11,416.1	\$12,347.1	\$12,074.5	-2.2%	(\$272.6)

HFA Estimates of Year-End Balances

The following table reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Year-end balances to not include supplemental appropriations, tax changes, or other funding shifts recommended in the Executive Budget Recommendation.

Fiscal year FY 2001-02 figures for GF/GP and the SAF are final.

Fiscal year 2002-03 estimates are based on year-to-date appropriations and consensus revenue estimates.

Budget Stabilization Fund estimates are based on current balance estimates provided by the Michigan Department of Treasury and HFA estimates of future deposits and interest earned.

School Aid Fund revenues are restricted; hence, any year-end balance is carried forward to the subsequent year.

YEAR-END BALANCE ESTIMATES (Millions of Dollars)

	FY 2001-02	FY 2002-03
General Fund/General Purpose	\$114.5	\$0.0
School Aid Fund	237.0	0.0
Budget Stabilization Fund	145.2	0.0

NOTE: Does not include effects of the Executive Recommendation.

Budget Stabilization Fund Year-End Balances

The following table reports a history of BSF deposits, withdrawals, and interest earnings from FY 1990-91 to FY 2001-02. It also includes HFA estimates of deposits, expected interest earnings, and year-end balances for FY 2002-03 and FY 2003-04. A complete list of BSF historical data is available from the HFA upon request.

The BSF fund balance for FY 2001-02 was \$145.2 million. Fiscal year 2001-02 withdrawals consisted of the following: \$382.0 million to the SAF (\$32.0 million for the Durant settlement), \$452.8 million to GF/GP to ensure a zero balance, and \$35.0 million to the State Trunkline fund for transportation purposes. The BSF balance is estimated to be eliminated at the end of FY 2002-03. Under current law, withdrawals consist of the following: \$32.0 million to the SAF for the Durant settlement and \$207.0 million to GF/GP. However, the previous year-end balance plus the interest earnings are estimated to be enough to support only a \$148.8 million withdrawal.

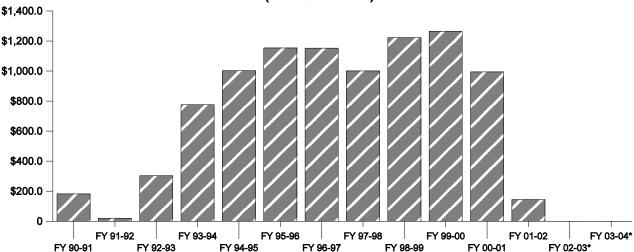
BUDGET STABILIZATION FUND (Millions of Dollars)

Fiscal Year	<u>Deposits</u>	Withdrawals	Interest Earned	<u>Balance</u>
1990-91	0.0	230.0	27.1	182.2
1991-92	0.0	170.1	8.1	20.1
1992-93	282.6	0.0	0.8	303.4
1993-94	460.2	0.0	11.9	775.5
1994-95	260.1	90.4	57.7	1,003.0
1995-96	91.3	0.0	59.3	1,153.6
1996-97	0.0	69.0	67.8	1,152.4
1997-98	0.0	212.0	60.1	1,000.5
1998-99	244.4	73.7	51.2	1,222.5
1999-2000	100.0	132.0	73.9	1,264.4
2000-01	0.0	337.0	66.7	994.2
2001-02	0.0	869.8	20.8	145.2
2002-03 Estimate	0.0	148.8	3.6	0.0
2003-04 Estimate	0.0	0.0	0.0	0.0

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BUDGET STABILIZATION FUND

(Millions of Dollars)



*FYs 2002-03 and 2003-04 are HFA estimates

Compliance with the State Revenue Limit

HFA estimates of the state revenue limit provided for in Article IX, Section 26, *Constitution of the State of Michigan*, and estimates of total state revenue collections subject to the state revenue limit are shown in the following table. As provided for in the *Constitution*, the revenue limit is calculated as 9.49% of total state personal income in the previous full calendar year prior to the fiscal year in which the revenues are measured, as estimated by the Bureau of Economic Analysis, United States Department of Commerce.

COMPLIANCE WITH THE STATE REVENUE LIMIT (Millions of Dollars)

Revenue Limit Calculations	Preliminary FY 2001-02	FY 2002-03	FY 2003-04
Personal Income			
Calendar Year	CY 2000	CY 2001	CY 2002
Amount	\$289,390	\$297,609	\$303,508
X Limit Ratio	9.49%	9.49%	9.49%
State Revenue Limit	\$27,463.1	\$28,243.1	\$28,802.9
Total Revenues Subject to Revenue Limit	23,590.8	24,064.3	24,326.3
Amount Under (Over) State Revenue Limit	\$3,872.3	\$4,178.8	\$4,476.7

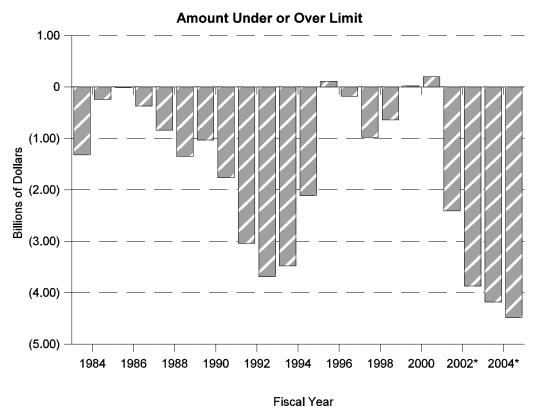
Implications of Exceeding the State Revenue Limit

Article IX, Section 26, Constitution of the State of Michigan, provides that:

. . . For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund . . .

Furthermore, the state is prohibited from spending any current-year revenue in excess of the limit established in Section 26 by Article IX, Section 28.

CONSTITUTIONAL REVENUE LIMIT



* FY 01-02 is preliminary; FYs 02-03 and 03-04 are estimates

The preliminary FY 2001-02 revenue limit calculation indicates that the state revenue collections were well under the revenue limit. In addition, for both FY 2002-03 and FY 2003-04, state revenues are estimated to be substantially below the revenue limit, by \$4.2 billion and \$4.5 billion respectively.

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